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SUBJECT: EGYPT: BANK PRIVATIZATION UPDATE

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Ref: Cairo 5350

Summary

1. (SBU) In early July the Ministry of Investment (MOI) announced the choice of Citibank as the financial advisor for privatization of the Bank of Alexandria (BOA), the first of Egypt's "big four" public banks scheduled for privatization. Bids will be considered in September, with the goal of completing the privatization by the end of 2005. The GOE plans to sell the bank to a strategic investor, preferably an international bank. Some bank managers have questioned this plan, claiming that privatization through an offering of shares on the stock market would be preferable, as it would increase market depth and allow trading of other banks' shares on Egypt's exchange. Sale of public stakes in joint venture banks has also advanced significantly in the last few months, with one of the biggest joint ventures, National Societe General Bank, now fully privatized. Progress on privatization has sent a positive signal to international investors. Some banking contacts doubt, however, that the GOE - after selling off its weakest banks and addressing non-performing loans - will be prepared to complete privatization by selling off its strongest public banks. End summary.

Progress on Bank of Alexandria Privatization

2. (U) On July 5, 2005 the MOI announced the choice of Citigroup International as the financial advisor for the sale of BOA, the first of Egypt's "big four" public banks to be privatized (Note: the other three of the "big four" are National Bank of Egypt (NBE), Bank Misr and Banque du Caire, in order of size). A committee of representatives from MOI, BOA and the Central Bank of Egypt (CBE), chaired by CBE, reviewed initial offers from eight investment banks to act as financial advisor. The committee short-listed three - Deutsche Bank, JP Morgan, and Citigroup - before selecting Citigroup.

3. (U) As financial advisor, Citigroup is charged with:

- Conducting a total review of the bank's operations and prospects for future development;
- Recommending a policy and method of sale to the private sector;
- Preparing a valuation based on the bank's financial position and conditions of the market and similar markets;
- Preparing sale documents including an information memorandum;
- Conducting a promotional campaign in international markets; and
- Managing the process through the final sale.

4. (SBU) According to BOA, Citigroup will work with BOA's auditor, KPMG International, and an international legal advisor to prepare promotional information for the sale. The request for bids is scheduled for issuance in September, with the goal of concluding the deal by the end of 2005. Minister of Investment Mohiieldin told USG officials in a recent meeting that he expected the privatization to be completed on schedule or by early 2006 at the latest.

5. (SBU) In preparation for the sale of BOA, one of its main subsidiaries, Egyptian-American Bank (EAB) was recently merged with another subsidiary, American Express Bank, in an \$8 million deal completed June 30. BOA, which owns 33% of

EAB, now plans to sell its stake in EAB by the end of 2005. The Managing Director of EAB, Roderick Richards, recently told econoff that the information memorandum for the sale would be issued soon and that he had already received several inquiries from potential buyers. Credit Suisse is acting as financial advisor for the sale.

Strategic Investor vs. IPO

16. (SBU) Prime Minister Nazif, CBE Governor El Okdah, and BOA Chairman Abdel Latif have all made public statements indicating that BOA would be sold to a strategic investor, with a possible initial public offering (IPO) of shares on the Cairo and Alexandria Stock Exchange (CASE) at a later stage. CBE Deputy Governor Tarek Amer recently told econoff that the GOE is hoping to sell BOA to a large international bank to increase competition, and thus overall efficiency, in Egypt's banking sector and help solidify investor confidence in Egypt's economy.

17. (SBU) Some bank managers have expressed concern about the GOE's plan to sell BOA to a strategic investor. Hisham Ezz El Arab, Chairman of Commercial International Bank (CIB), told econoff that he would prefer BOA be privatized through an IPO. Ezz El Arab was concerned that CIB, as one of the few banks traded on the CASE, was becoming overexposed in the market. Listing BOA on the exchange would reduce the risk of overexposure for other banks listed on the exchange, adding depth to the market and increasing trading volume. Ezz El Arab noted, however, that the GOE was fixated on bringing an international bank into Egypt's market, in large part for the value added in the banking sector's operations and the symbolic value. Other senior bank managers and some CBE officials have echoed Ezz El Arab's view that an IPO - or at least an IPO after sale to a strategic investor - would be preferable to an exclusive sale to a strategic investor.

Progress on Privatization of Joint Venture Banks

18. (U) As part of the GOE's overall plan to restructure Egypt's banking sector, CBE Governor El Okdah has called on the big four public banks to divest their stakes in joint venture (JV) banks within the next two to three years, starting with the four largest of the JV banks:

- Misr International Bank (MIBANK), 26% owned by Bank Misr;
- Commercial International Bank, 18.5% owned by NBE;
- National Societe Generale Bank (NSGB), 18% owned (formerly) by NBE; and
- BNP Paribas, 12% owned by Banque du Caire.

In a recent public statement, El Okdah said that a total of nine JVs would be privatized by the end of 2005.

19. (U) Progress on divestiture of public shares in JV banks has been steady over the last several months. In February, the French Societe General Bank (SGB) acquired 24% of NSGB. SGB purchased NBE's 18% stake in the bank and 6% of the shares of private investors, for a total of LE 714 million. Sale of NBE's 18% stake generated LE 535.6 million in revenues for the GOE. SGB now owns 78% of NSGB, with the remaining shares freely floating on the stock exchange. NSGB is the second largest private sector bank in Egypt after CIB.

110. (U) CIB is currently working with financial advisor Goldman Sachs to find a strategic partner to buy NBE's 18.5% stake in CIB. CIB Chairman Ezz El Arab has indicated that he would like to find a partner that will bring value-added to CIB's operations and future prospects. Goldman Sachs is expected to find a foreign partner by the end of 2005, and until then, CIB is continuing to restructure and modernize its domestic and regional banking operations.

111. (U) At the end of July, CBE short-listed two banks - BNP Paribas and SGB - to buy Bank Misr's 26% of MIBANK. Bank Misr is also in the process of selling its 51.3% stake in another JV bank, Bank Misr Romania. Bank Misr employed investment firm EFG-Hermes to evaluate and promote Bank Misr Romania in preparation for its eventual sale. In addition to selling its shares in JV banks, Bank Misr is in various stages of merger with a number of smaller banks, including Mohandes Bank and Misr Exterior Bank.

Non-performing loans

112. (SBU) Among the most difficult issues confronting the GOE in the privatization process is the non-performing loan

(NPL) portfolios of the public banks. The CBE has begun to address this issue by establishing a special unit to handle NPLs. The unit recently launched an arbitration mechanism designed to speed up settlement of NPLs. CBE Governor El Okdah, speaking before the Economic Committee of parliament in late July, stated that LE 15 billion in NPLs had already been settled, and predicted that 26% of the public banks' NPLs would be settled by the end of 2005. El Okdah aims to have the total public banking sector's NPL portfolio resolved within the next 18 months. To complement these efforts, El Okdah and Minister of Finance Youssef Boutros Ghali have indicated to USG officials that the GOE intends to issue a bond, the proceeds of which would be used to re-capitalize the public banks.

Comment

13. (SBU) The progress the GOE has made on bank privatization in a relatively short period of time has sent encouraging signals to foreign investors, who now appear lined up to enter Egypt's market. The jury is still out, however, on how quickly the GOE will privatize the remaining public banks once the sale of BOA is completed. Banking sector contacts have indicated that Banque du Caire is next on MOI's list for privatization, but some believe the GOE will stop short of selling Bank Misr and, in particular, NBE, which is viewed as the "champion" of the banking sector. International banking experts, however, are still being hired, with support from the EU and European Central Bank, to assist in the restructuring of the public banks. Further developments in banking sector reform will be reported septel.
JONES